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DEPARTMENT OF TREASURY  
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**Special Notice to Secondary Wholesalers, Vending Machine Operators and In-State Unclassified Acquirers Concerning a Required One-Time Inventory Tax on all Tobacco Products**

On August 1, 2002, the tax on cigarettes will increase from 75 cents to \$1.25 per pack of 20 cigarettes (from 37.5 to 62.5 mills per cigarette) and the tax rate on other tobacco products (OTP) will increase from 16% to 20% of the wholesale price of the OTP (OTP includes any cigar or roll for smoking, other than a cigarette, made in whole or in part of tobacco, and any tobacco other than cigarettes, intended for consumption by smoking, chewing, or as snuff).

As a result of this increase, the law **REQUIRES** secondary wholesalers, vending machine operators and in-state unclassified acquirers who sell tobacco products to do both of the following:

- Take a physical inventory of all cigarettes and OTP on hand as of the close of business July 31, 2002. The amount of cigarettes and OTP a licensee or other person "*has on hand for sale*" on August 1, 2002, is the actual physical inventory of cigarettes and OTP. Actual physical inventory includes shipments of cigarettes and OTP that licensees or retailers physically possess on or before July 31, 2002.
- File a tobacco products floor tax return postmarked by September 3, 2002, and pay the additional tax of 50 cents per pack of 20 cigarettes and the additional tax of 4% of the wholesale price of OTP for all physical inventory on hand as of the close of business on July 31, 2002. The physical inventory includes cigarettes or OTP offered for sale, kept on site, and kept or stored at other locations in Michigan.

Effective August 1, 2002, the compensation rate for cigarettes to cover the costs incurred by wholesalers and unclassified acquirers in administering this act will increase from 1.25% to 1.50%. The compensation rate for OTP remains at 1%. **NOTE** that the 1.5% allowance does not apply to the inventory tax.

**"Wholesale" Price of OTP**

The inventory tax on OTP is based on the "wholesale" price of the OTP. **IT IS IMPORTANT TO NOTE** that the wholesale price of OTP is the established price for which a manufacturer sells tobacco products to a distributor before the allowance of any discount, trade allowance, rebate or other reduction. In the absence of the established price, the wholesale price is the manufacturer's invoice price. If you know the "wholesale" price, you should apply the inventory tax rate to that amount. **However, if**

**you do not know or cannot identify the wholesale price of the OTP, you may use 50% of the OTP retail price (excluding sales tax) as the wholesale price.**

### **Physical inventory**

The results of the physical inventory of tobacco products must be reported on the Michigan Tobacco Products Inventory Tax Return form #2374, *Tax Return*, that is enclosed with this notice.

If you have tobacco products stored, kept or offered for sale at more than one business location in Michigan, you must file one inventory tax return for each location that has a separate Federal Employer Identification Number (FEIN) (tax identification number). Cigarettes and other tobacco products stored at locations other than the primary business location must be included in the inventory for the inventory tax. A separate physical inventory must be taken at each location.

If you have tobacco products stored, kept or offered for sale at more than one business location in Michigan **and each location uses the same the FEIN** (tax identification number), you must file one inventory tax return that includes the information for all locations. A separate physical inventory must be taken at each location. Copies of the inventories must be forwarded to the location responsible for completing the inventory tax return. Cigarettes and other tobacco products stored at locations other than the primary business location must be included in the inventory for the inventory tax.

**Note:** Sellers must take their own physical inventory. Random inventory counts for statistical purposes may not be used.

### **Attention vending machine operators**

Each vending machine operator should take a physical inventory of as many machines as possible with available personnel. If it is impossible to take a physical inventory of each vending machine, the vending machine operator may pay a tobacco products inventory tax based on one-half of the **normal fill capacity** for those machines that cannot be physically inventoried on July 31, 2002.

Normal fill capacity means the inventory as indicated on the individual inventory record maintained for each vending machine on location. For example, if the normal fill capacity of a machine is 200 cigars and the wholesale price of each cigar is \$2.50, the department will permit the vending machine operator to report a tax based on one-half of 200, or 100 cigars, at 4% of their wholesale price of \$250 (100 cigars x \$2.50) for a tobacco products inventory tax due of \$10.00 (4% x \$250) for that machine.

**NOTE** that the alternative method outlined above **only applies** to vending machines on location. A physical inventory must be taken of all tobacco products stored elsewhere.

### **Inspection and audit**

For audit purposes, secondary wholesalers, vending machine operators and in-state unclassified acquirer must keep all records of the physical inventory used to arrive at the tobacco products inventory tax due.

**Inventory Tax Return form – Obtaining, Filing and Paying**

If you are required to file a return but have not received one, the Michigan Tobacco Products Inventory Tax Return form #2374 is available by visiting our web site at <http://www.michigan.gov/treasury> , by contacting the Tobacco Tax Unit at 517-241-8180 or by faxing the unit at 517-241-7732 to request a form. The form must be submitted with the appropriate tax payment by September 3, 2002.

**A licensee's failure to receive a tobacco products inventory tax form is not an acceptable reason for failure to file and pay the tobacco products inventory tax due.**

**Forms and payments that are not timely filed may be subject to assessment of penalty and interest for late filing in accordance with the Revenue Act, 1941PA122.**

**Failure to file form #2374 and/or remit the tax due may result in the issuance of a computed intent to assess for tax, penalty and interest in accordance with the Revenue Act, 1941PA122.**

Please do not hesitate to contact the Tobacco Tax Unit at 517-241-8180 if we can be of assistance.